



**PAINESVILLE CITY LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2016**



**Dave Yost • Auditor of State**



**PAINESVILLE CITY LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Painesville City Local School District  
Lake County  
58 Jefferson Street  
Painesville, Ohio 44077

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Painesville City Local School District, Lake County, Ohio, (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Painesville City Local School District, Lake County, Ohio, as of June 30, 2016, and the respective changes in cash financial position and the respective budgetary comparisons for the General Fund, Special Levy Fund, and Classroom Facilities Maintenance Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

***Accounting Basis***

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

***Other Matters***

*Supplemental Information*

Our audit was conducted to opine on the financial statements taken as a whole.

The Federal Awards Expenditures Schedule presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

**Dave Yost**  
Auditor of State  
Columbus, Ohio

November 30, 2016

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Painesville City Local School District  
Statement of Net Position - Cash Basis  
June 30, 2016

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	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$12,472,746</u>
Total Assets	<u>12,472,746</u>
Net Cash Position:	
Restricted for:	
Debt Service	1,336,546
Capital Projects	1,995,991
Classroom Facilities Maintenance	1,359,962
State Funded Programs	44,219
Special Levy	2,826,350
Food Service	260,528
Other Purposes	159,179
Unrestricted	<u>4,489,971</u>
Total Net Cash Position	<u><u>\$12,472,746</u></u>

See accompanying notes to the basic financial statements.

Painesville City Local School District  
Statement of Activities - Cash Basis  
For the Fiscal Year Ended June 30, 2016

	Cash Disbursements	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Cash Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>				
<b>Instruction:</b>				
Regular	\$13,631,871	\$533,604	\$286,656	(\$12,811,611)
Special	6,518,639	209,712	4,097,575	(2,211,352)
Vocational	231,527	0	7,751	(223,776)
Other	3,250,446	0	127,657	(3,122,789)
<b>Support Services:</b>				
Pupil	2,221,170	0	145,852	(2,075,318)
Instructional Staff	1,514,464	0	406,212	(1,108,252)
General Administration	54,124	0	0	(54,124)
School Administration	3,702,244	0	2,353	(3,699,891)
Fiscal	580,462	0	0	(580,462)
Business	34,313	0	0	(34,313)
Operations and Maintenance	3,689,016	0	0	(3,689,016)
Pupil Transportation	1,464,807	14,480	194,801	(1,255,526)
Central	806,416	0	0	(806,416)
Operation of Non-Instructional Services	1,907,045	152,905	1,733,989	(20,151)
Extracurricular Activities	793,786	167,097	35,433	(591,256)
Capital Outlay	36,942	0	0	(36,942)
<b>Debt Service:</b>				
Principal Retirement	1,350,000	0	0	(1,350,000)
Interest and Fiscal Charges	607,390	0	0	(607,390)
<b>Totals</b>	<b>\$42,394,662</b>	<b>\$1,077,798</b>	<b>\$7,038,279</b>	<b>(34,278,585)</b>

**General Receipts:**

Property Taxes Levied for:

General Purposes	7,087,709
Special Revenue Purposes	1,733,240
Debt Service Purposes	1,783,251
Capital Projects Purposes	21,887
Grants and Entitlements, Not Restricted	24,433,609
Unrestricted Contributions	6,105
Investment Earnings	196,545
Other Receipts	413,107

Total General Receipts 35,675,453

Change in Net Cash Position 1,396,868

Net Cash Position - Beginning of Year 11,075,878

Net Cash Position - End of Year \$12,472,746

See accompanying notes to the basic financial statements

Painesville City Local School District  
Statement of Assets and Fund Balances - Cash Basis  
Governmental Funds  
June 30, 2016

	General	Special Levy	Classroom Facilities Maintenance	Debt Service	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets:							
Equity in Pooled Cash and Cash Equivalents	\$4,489,971	\$2,826,350	\$1,359,962	\$1,336,546	\$1,995,991	\$463,926	\$12,472,746
Total Assets	\$4,489,971	\$2,826,350	\$1,359,962	\$1,336,546	\$1,995,991	\$463,926	\$12,472,746
Fund Cash Balances:							
Restricted	\$0	\$2,826,350	\$1,359,962	\$1,336,546	\$1,995,991	\$463,926	\$7,982,775
Committed	433,222	0	0	0	0	0	433,222
Assigned	162,476	0	0	0	0	0	162,476
Unassigned	3,894,273	0	0	0	0	0	3,894,273
Total Fund Cash Balances	\$4,489,971	\$2,826,350	\$1,359,962	\$1,336,546	\$1,995,991	\$463,926	\$12,472,746

See accompanying notes to the basic financial statements

Painesville City Local School District  
Statement of Cash Receipts, Cash Disbursements  
and Changes in Fund Cash Balances - Cash Basis  
Governmental Funds  
For the Fiscal Year Ended June 30, 2016

	General	Special Levy	Classroom Facilities Maintenance	Debt Service	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b>Receipts:</b>							
Property and Other Taxes	\$7,087,709	\$1,609,311	\$123,929	\$1,783,252	\$21,887	\$0	\$10,626,088
Tuition and Fees	737,278	0	0	0	0	398	737,676
Investment Earnings	37,242	0	4,277	4,125	6,501	555	52,700
Intergovernmental	26,892,531	0	0	369,467	25,792	4,184,100	31,471,890
Extracurricular Activities	71,582	0	0	0	0	95,006	166,588
Charges for Services	9,252	0	0	0	0	153,392	162,644
Other Receipts	512,676	0	0	0	0	61,268	573,944
<b>Total Receipts</b>	<b>35,348,270</b>	<b>1,609,311</b>	<b>128,206</b>	<b>2,156,844</b>	<b>54,180</b>	<b>4,494,719</b>	<b>43,791,530</b>
<b>Cash Disbursements:</b>							
<b>Current:</b>							
<b>Instruction:</b>							
Regular	12,185,091	1,095,968	0	32,775	8,627	309,410	13,631,871
Special	4,972,679	0	0	0	0	1,545,960	6,518,639
Vocational	231,527	0	0	0	0	0	231,527
Other	3,115,771	0	0	0	0	134,675	3,250,446
<b>Support Services:</b>							
Pupil	2,068,305	0	0	0	0	152,865	2,221,170
Instructional Staff	1,069,313	0	0	0	0	445,151	1,514,464
General Administration	54,124	0	0	0	0	0	54,124
School Administration	3,699,764	0	0	0	0	2,480	3,702,244
Fiscal	577,844	0	0	0	2,618	0	580,462
Business	34,313	0	0	0	0	0	34,313
Operations and Maintenance	3,436,441	0	222,046	0	30,529	0	3,689,016
Pupil Transportation	1,450,799	0	0	0	0	14,008	1,464,807
Central	798,840	0	0	0	7,576	0	806,416
Operation of Non-Instructional Services	7,036	0	0	0	0	1,900,009	1,907,045
Extracurricular Activities	568,123	0	0	0	25,001	200,662	793,786
Capital Outlay	7,172	0	0	0	29,770	0	36,942
<b>Debt Service:</b>							
Principal Retirement	0	0	0	1,350,000	0	0	1,350,000
Interest and Fiscal Charges	0	0	0	607,390	0	0	607,390
<b>Total Cash Disbursements</b>	<b>34,277,142</b>	<b>1,095,968</b>	<b>222,046</b>	<b>1,990,165</b>	<b>104,121</b>	<b>4,705,220</b>	<b>42,394,662</b>
<b>Excess of Receipts Over (Under) Cash Disbursements</b>	<b>1,071,128</b>	<b>513,343</b>	<b>(93,840)</b>	<b>166,679</b>	<b>(49,941)</b>	<b>(210,501)</b>	<b>1,396,868</b>
<b>Other Financing Sources (Uses):</b>							
Transfers In	0	0	0	0	0	18,042	18,042
Transfers (Out)	(6,135)	0	0	0	0	(11,907)	(18,042)
<b>Total Other Financing Sources (Uses)</b>	<b>(6,135)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,135</b>	<b>0</b>
<b>Net Change in Fund Cash Balance</b>	<b>1,064,993</b>	<b>513,343</b>	<b>(93,840)</b>	<b>166,679</b>	<b>(49,941)</b>	<b>(204,366)</b>	<b>1,396,868</b>
<b>Fund Cash Balance - Beginning of Year</b>	<b>3,424,978</b>	<b>2,313,007</b>	<b>1,453,802</b>	<b>1,169,867</b>	<b>2,045,932</b>	<b>668,292</b>	<b>11,075,878</b>
<b>Fund Cash Balance - End of Year</b>	<b>\$4,489,971</b>	<b>\$2,826,350</b>	<b>\$1,359,962</b>	<b>\$1,336,546</b>	<b>\$1,995,991</b>	<b>\$463,926</b>	<b>\$12,472,746</b>

See accompanying notes to the basic financial statements.

Painesville City Local School District  
Statement of Receipts, Cash Disbursements and Changes in Fund Balance  
Budget and Actual (Non-GAAP Budgetary Basis)  
For the Fiscal Year Ended June 30, 2016

	General Fund			Variance from Final Budget
	Original Budget	Final Budget	Actual	
<b>Budgetary Basis Receipts:</b>				
Taxes	\$7,040,358	\$7,087,709	\$7,087,709	\$0
Tuition and Fees	492,759	496,073	496,073	0
Investment Earnings	36,984	37,233	37,233	0
Intergovernmental	26,517,994	26,696,346	26,696,346	0
Extracurricular Activities	22,101	22,250	22,250	0
Other Receipts	360,090	362,512	362,512	0
<b>Total Budgetary Basis Receipts</b>	<b>34,470,286</b>	<b>34,702,123</b>	<b>34,702,123</b>	<b>0</b>
<b>Budgetary Basis Disbursements:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	12,695,955	12,191,323	12,191,323	0
Special	4,889,894	4,695,533	4,695,533	0
Vocational	76,866	73,811	73,811	0
Other	3,244,741	3,115,771	3,115,771	0
<b>Support Services:</b>				
Pupil	2,142,293	2,057,142	2,057,142	0
Instructional Staff	979,430	940,500	940,500	0
General Administration	56,364	54,124	54,124	0
School Administration	3,752,025	3,602,892	3,602,892	0
Fiscal	601,884	577,961	577,961	0
Business	36,842	35,378	35,378	0
Operations and Maintenance	3,483,982	3,345,503	3,345,503	0
Pupil Transportation	1,539,052	1,477,879	1,477,879	0
Central	834,534	801,363	801,363	0
Operation of Non-Instructional Services	6,963	6,686	6,686	0
Extracurricular Activities	556,498	534,379	534,379	0
Capital Outlay	7,469	7,172	7,172	0
<b>Total Budgetary Basis Disbursements</b>	<b>34,904,792</b>	<b>33,517,417</b>	<b>33,517,417</b>	<b>0</b>
<b>Excess of Budgetary Basis Receipts Over (Under) Budgetary Basis Disbursements</b>	<b>(434,506)</b>	<b>1,184,706</b>	<b>1,184,706</b>	<b>0</b>
<b>Other Financing Sources (Uses):</b>				
Transfers (Out)	(252,591)	(242,551)	(242,551)	0
<b>Total Other Financing Sources (Uses)</b>	<b>(252,591)</b>	<b>(242,551)</b>	<b>(242,551)</b>	<b>0</b>
<b>Net Change in Fund Balance</b>	<b>(687,097)</b>	<b>942,155</b>	<b>942,155</b>	<b>0</b>
<b>Fund Balance Beginning of Year (includes prior year encumbrances appropriated)</b>	<b>3,193,237</b>	<b>3,193,237</b>	<b>3,193,237</b>	<b>0</b>
<b>Fund Balance End of Year</b>	<b>\$2,506,140</b>	<b>\$4,135,392</b>	<b>\$4,135,392</b>	<b>\$0</b>

See accompanying notes to the basic financial statements.

Painesville City Local School District  
Statement of Receipts, Cash Disbursements and Changes in Fund Balance  
Budget and Actual (Non-GAAP Budgetary Basis)  
For the Fiscal Year Ended June 30, 2016

	Special Levy Fund			Variance from Final Budget
	Original Budget	Final Budget	Actual	
Budgetary Basis Receipts:				
Taxes	\$1,600,000	\$1,609,311	\$1,609,311	\$0
Total Budgetary Basis Receipts	1,600,000	1,609,311	1,609,311	0
Budgetary Basis Disbursements:				
Current:				
Instruction:				
Regular	800,000	1,095,969	1,095,969	0
Total Budgetary Basis Disbursements	800,000	1,095,969	1,095,969	0
Net Change in Fund Balance	800,000	513,342	513,342	0
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	2,313,008	2,313,008	2,313,008	0
Fund Balance End of Year	<u>\$3,113,008</u>	<u>\$2,826,350</u>	<u>\$2,826,350</u>	<u>\$0</u>

See accompanying notes to the basic financial statements.

Painesville City Local School District  
Statement of Receipts, Cash Disbursements and Changes in Fund Balance  
Budget and Actual (Non-GAAP Budgetary Basis)  
For the Fiscal Year Ended June 30, 2016

	Classroom Facilities Maintenance Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Budgetary Basis Receipts:				
Investment Earnings	\$7,022	\$4,277	\$4,277	\$0
Total Budgetary Basis Receipts	7,022	4,277	4,277	0
Budgetary Basis Disbursements:				
Current:				
Support Services:				
Operations and Maintenance	147,981	222,050	222,050	0
Total Budgetary Basis Disbursements	147,981	222,050	222,050	0
Excess of Budgetary Basis Receipts Over (Under) Budgetary Basis Disbursements	(140,959)	(217,773)	(217,773)	0
Other Financing Sources (Uses):				
Transfers In	203,478	123,929	123,929	0
Total Other Financing Sources (Uses)	203,478	123,929	123,929	0
Net Change in Fund Balance	62,519	(93,844)	(93,844)	0
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	1,453,806	1,453,806	1,453,806	0
Fund Balance End of Year	<u>\$1,516,325</u>	<u>\$1,359,962</u>	<u>\$1,359,962</u>	<u>\$0</u>

See accompanying notes to the basic financial statements.

Painesville City Local School District  
Statement of Fiduciary Net Position - Cash Basis  
Fiduciary Fund  
June 30, 2016

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	Private Purpose Trust	Agency
	<u>          </u>	<u>          </u>
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$8,656	\$25,272
	<u>          </u>	<u>          </u>
Total Assets	8,656	\$25,272
	<u>          </u>	<u>          </u>
Net Cash Position:		
Held on Behalf of Scholarship Programs	8,656	0
Held on Behalf of Student Managed Activity	0	25,272
	<u>          </u>	<u>          </u>
Total Net Cash Position	<u>\$8,656</u>	<u>\$25,272</u>

See accompanying notes to the basic financial statements.



Painesville City Local School District  
Statement of Changes in Fiduciary Net Position - Cash Basis  
Fiduciary Fund  
For the Fiscal Year Ended June 30, 2016

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	Private Purpose Trust
Additions:	
Donations	\$500
Investment Earnings	\$18
Total Additions	<u>518</u>
Deductions:	
Other	<u>3,170</u>
Total Deductions	<u>3,170</u>
Change in Net Cash Position	(2,652)
Net Cash Position - Beginning of Year	<u>11,308</u>
Net Cash Position - End of Year	<u><u>\$8,656</u></u>

See accompanying notes to the basic financial statements.

**Painesville City Local School District**  
**Lake County, Ohio**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2016**

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**Note 1 - Description of the District**

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The Painesville City Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under a five member elected Board of Education and is responsible for the provision of public education to residents of the District.

The District is located in Lake County.

Average daily membership (ADM) as of June 1, 2016 was 3,093. The District employed 230 certificated employees and 159 non-certificated employees. It currently operates six instructional facilities.

**Reporting Entity**

In accordance with all relevant Governmental Accounting Standards Board (GASB) pronouncements, the financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments.

There are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable. The District's major operations include education, pupil transportation, food service, and maintenance of District facilities.

The District participates in three Jointly Governed Organizations, a shared risk pool and an insurance purchasing pool, that are further described in the notes to the financial statements.

**Note 2 – Summary of Significant Accounting Policies**

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These financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all the relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting.

Ohio Administrative Code, Section 117-2-03 (B), requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, deferred inflows, deferred outflows, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

**Painesville City Local School District  
Lake County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016**

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**Fund Accounting**

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

**Governmental Funds**

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The following are the District's major governmental funds:

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Levy Fund – The special levy fund is from the Lake County School Financing District that is made up of Perry, Madison, Riverside and Painesville City Local Schools. The funds are to be used for educational programs and services.

Classroom Facilities Maintenance Fund – The classroom facilities maintenance fund is used to account for the proceeds of a levy for the maintenance of facilities.

Debt Service Fund – The debt service fund is used to account for the accumulation of resources for the payment of general obligation bond principal and interest and certain long-term obligations from governmental resources when the District is obligated in some manner for the payment.

Permanent Improvement Fund – The permanent improvement fund is used to account for all transactions related to the acquiring, construction or improving of such permanent improvements as are authorized by Chapter 5705.

The other governmental funds of the District account for grants and other resources whose use is restricted to a particular purpose.

**Fiduciary Funds**

Fiduciary fund reporting focuses on net cash position and changes in net cash position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only trust fund is a private purpose trust which accounts for scholarship programs for students. The District has a student managed activity agency fund which accounts for assets generated by student managed activities and an Athletic playoffs agency fund which accounts for assets generated by this fund.

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**Basis of Presentation**

Government-wide Financial Statements

The statement of net position - cash basis and the statement of activities - cash basis display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the District. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the District.

Fund Financial Statements

The fund financial statements report more detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Fund statements present each major fund in a separate column and aggregate non-major funds in a single column. Fiduciary funds are reported by fund type.

**Equity in Pooled Cash and Cash Equivalents**

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2016. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company but does operate in a manner consistent with Rule 2A7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2016.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest during the fiscal year amounted to \$37,242 credited to the general fund, \$4,277 credited to the classroom facilities maintenance fund, \$4,125 credited to the debt service fund, \$6,501 credited to the permanent improvement fund, and \$555 credited to other governmental funds.

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**Inventory and Prepaid Items**

The District reports disbursements for inventory and prepaid items when paid. These items are not reflected in the accompanying financial statements under the cash basis of accounting.

**Capital Assets**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected in the accompanying financial statements under the cash basis of accounting.

**Unpaid Vacation and Sick Leave**

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

**Interfund Activity**

During the course of normal operations, the District has numerous transactions between funds, including expenditures and transfers of resources to provide services and improve assets. Operating subsidies are recorded as operating transfers. The classification of amounts recorded as subsidies, advances or equity contributions is based on the intent of the District at the time of the transaction.

**Employer Contributions to Cost-Sharing Plans**

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described later in the notes, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**Pensions**

For purposes of measuring the net pension liability, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

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Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board-adopted budget is filed with the Lake County Budget Commission for rate determination.

Estimated Resources

Prior to April 1, the Board accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected receipts of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in receipts are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2016.

Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control.

Any revisions that alter the total of any fund appropriation must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, several supplemental appropriations were legally enacted. The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

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Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

While the District is reporting financial position, results of operations and changes in fund balances on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balance – Budget and Actual (Budgetary Basis) presented for the general fund, special levy, and classroom facilities maintenance are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and the cash basis is outstanding year end encumbrances are treated as disbursements (budget) rather than a reservation of fund balance (cash).

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis statement for the general fund, special levy fund, and classroom facilities maintenance:

Net Change in Fund Cash Balance:

	General	Special Levy	Classroom Facilities Maintenance
Cash Basis	\$1,064,993	\$513,343	(\$93,840)
Adjustment for Encumbrances	(136,584)	(1)	(4)
Funds Budgeted Elsewhere	13,746	0	0
Budget Basis	<u>\$942,155</u>	<u>\$513,342</u>	<u>(\$93,844)</u>

**Long-Term Debt**

Bonds and other long-term debt issuances are not recognized as a liability in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for debt principal payments.

**Fund Cash Balance**

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting*, the District classifies its fund cash balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories are used:

Nonspendable – resources that are not in spendable form or have legal or contractual requirements to maintain the balance intact.

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Restricted – resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.

Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, the Board of Education.

Assigned – resources that are intended to be used for specific purposes as approved through the District’s formal purchasing procedure by the Treasurer.

Unassigned – residual fund balance within the General Fund that is not restricted, committed, or assigned. In other governmental funds, the unassigned classification is used only to report a deficit cash balance resulting from incurred expenses for specific purposes exceeding amounts which had been restricted, committed or assigned for said purposes.

The District considers committed, assigned, and unassigned fund balances, respectively, to be spent when disbursements have incurred for purposes for which any of the unrestricted fund cash balance classifications could be used.

**Net Cash Position**

Net cash position are reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use.

The District first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net cash position are available.

**Note 3 - Equity in Pooled Cash and Cash Equivalents**

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The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the statement of net position and balance sheet as "Equity in Pooled Cash and Cash Equivalents."

State statute requires the classification of monies held by the District into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the District. Such monies must by law be maintained either as cash in the District treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Ohio law permits interim monies to be invested or deposited in the following securities:



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- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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**Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2016, \$155,604 of the District's bank balance of \$405,604 was exposed to custodial risk as it was not FDIC insured.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

**Investments**

Investments are reported at fair value. As of June 30, 2016, the District had the following investments (there were no long-term investments; for financial statement reporting purposes the investments below are considered cash equivalents):

Investment Type	Fair Value	Weighted Average Maturity (Years)
Money Market Funds	\$1,025,559	0.00
Negotiable CD's	4,229,690	1.60
STAR Ohio	7,212,560	0.13
Total Fair Value	\$12,467,809	
Portfolio Weighted Average Maturity		0.62

Interest Rate Risk - In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

Credit Risk – It is the District's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings issued by nationally recognized statistical rating organizations. The District's investments in Money Market Funds and negotiable CD's were not rated by Standard & Poor's and Fitch Ratings and by Moody's Investors Service. Investments in STAR Ohio were rated AAAM by Standard & Poor's.

Concentration of Credit Risk – The District's investment policy allows investments in Federal Agencies or Instrumentalities. All investments were issued or guaranteed by the federal government. At year end, the District's allocations of investments (cash equivalents) were as follows: Money Market Accounts (8%), negotiable CD's (33%), and STAROhio (59%).

Custodial Credit Risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the

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possession of an outside party. All of the District’s securities are either insured and registered in the name of the District or at least registered in the name of the District.

**Note 4 - Property Taxes**

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Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real and public utility personal property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on real property at 35 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. The District receives property taxes from Lake County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2015, are available to finance fiscal year 2016 operations. The amount available for advance can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2016 taxes were collected are:

	<u>Second Half 2015 Amount</u>	<u>First Half 2016 Amount</u>
Agricultural/Residential and Other Real Estate	\$175,874,190	\$176,055,320
Public Utility Personal	<u>2,171,370</u>	<u>2,242,940</u>
Total	<u>\$178,045,560</u>	<u>\$178,298,260</u>

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**For the Fiscal Year Ended June 30, 2016**

**Note 5 - Long-Term Debt**

<u>Maturity Dates</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due In One Year</u>
12/1/33	\$385,000	\$0	(\$385,000)	\$0	\$0
12/1/33	136,248	0	(136,248)	0	0
12/1/15	229,313	19,439	(248,752)	0	0
12/1/32	8,055,000	0	(125,000)	7,930,000	125,000
12/1/26	74,986	0	0	74,986	0
12/1/26	76,890	40,833	0	117,723	0
12/1/32	935,807	0	(53,475)	882,332	0
12/1/32	8,160,000	0	(140,000)	8,020,000	150,000
12/1/20	34,995	0	0	34,995	0
12/1/20	91,374	96,763	0	188,137	0
12/1/32	1,167,269	0	(66,701)	1,100,568	0
12/1/24	7,315,000	0	(700,000)	6,615,000	0
12/1/16	664,994	0	0	664,994	664,994
12/1/16	160,012	168,346	0	328,358	0
12/1/24	548,807	0	(54,881)	493,926	0
	<u>\$28,035,695</u>	<u>\$325,381</u>	<u>(\$1,910,057)</u>	<u>\$26,451,019</u>	<u>\$939,994</u>

Principal and interest requirements to retire general obligation debt outstanding at year end are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Current Interest Bonds and Notes Payable</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$275,000	\$600,440	\$875,440	\$664,994	\$425,006	\$1,090,000
2018	1,215,000	586,228	1,801,228	9,693	135,307	145,000
2019	1,230,000	561,876	1,791,876	5,490	139,510	145,000
2020	830,000	541,471	1,371,471	12,650	139,510	152,160
2021	845,000	524,683	1,369,683	7,162	582,838	590,000
2022-2026	6,655,000	3,128,151	9,783,151	41,938	993,062	1,035,000
2027-2031	7,780,000	2,293,034	10,073,034	33,048	1,001,952	1,035,000
2032-2033	3,735,000	122,439	3,857,439	0	0	0
Total	<u>\$22,565,000</u>	<u>\$8,358,322</u>	<u>\$30,923,322</u>	<u>\$774,975</u>	<u>\$3,417,185</u>	<u>\$4,192,160</u>

**Note 6 – Lessor**

Headstart – In July 2011, the District entered into a 3 year lease with Lake-Geauga United Head Start to lease property for use at a rate of \$114,828 per year. In fiscal year 2015, the District's annual lease payment was \$121,763 for year one of the lease, for fiscal year 2016, the annual lease payment was \$125,585 for year two, and for fiscal year 2017, the annual lease payment will be \$129,408 for year three.

The lease meets the criteria of a capital lease and therefore has been recorded as a sale since all the benefits and risks of ownership have been transferred to the lessee.

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Rental payments received for FY 2016 were \$125,585.

**Note 7 – Defined Benefit Pension Plans**

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**Net Pension Liability**

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the District’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the District’s obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

**Plan Description - School Employees Retirement System (SERS)**

Plan Description – District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

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Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30 or \$86.00 multiplied by the years of service credit. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$783,456 for fiscal year 2016.

**Plan Description - State Teachers Retirement System (STRS)**

Plan Description – District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service.

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With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$2,243,952 for fiscal year 2016.

**Painesville City Local School District**  
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**Net Pension Liability**

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$8,951,046	\$40,555,075	\$49,506,121
Proportion of the Net Pension Liability	0.1568681%	0.14674156%	

**Actuarial Assumptions - SERS**

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.



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The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	100.00 %	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$12,411,884	\$8,951,046	\$6,036,735

**Painesville City Local School District  
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**Actuarial Assumptions - STRS**

The total pension liability in the July 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses, including inflation
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS’ investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	3.00
Total	<u>100.00 %</u>	

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

**Painesville City Local School District  
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***Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$56,334,058	\$40,555,075	\$27,211,591

**Note 8 - Post Employment Benefits**

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**School Employees Retirement System of Ohio**

Plan Description

In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2016 was \$104.90 for most participants, but could be as high as \$335.70 depending on their income; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2016, the actuarially required allocation was .74%. District contributions for the years ended June 30, 2016, 2015 and 2014 were \$41,411, \$41,557, and \$38,477, respectively, which equaled the required contributions each year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended

**Painesville City Local School District  
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June 30, 2016, the health care allocation was 0.00%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the minimum compensation level was established at \$23,000. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District contributions assigned to health care for the years ended June 30, 2016, 2015, and 2014 were \$0, \$7,655, and \$8,320, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under *Employers/Audit Resources*.

### **State Teachers Retirement System of Ohio**

#### Plan Description

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan and a Combined Plan that is a hybrid of the Defined Benefit and the Defined Contribution Plan.

Ohio law authorized STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums.

Pursuant to 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free 1-888-227-7877.

#### Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contributions rate, 0% of covered payroll was allocated to post-employment health care for the years ended June 30, 2016 and 2015, 1% of covered payroll was allocated to post-employment health care for the year ended June 30, 2014. The 14% employer contribution rate is the maximum rate established under Ohio law. The District contributions for the years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$145,551. 0% has been contributed for fiscal years 2016 and 2015, and 100% for fiscal years 2014.

**Painesville City Local School District**  
**Lake County, Ohio**  
**Notes to the Basic Financial Statements**  
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**Note 9 – Contingent Liabilities**

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**Grants**

The Auditor of State has performed a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The District received a clean audit on the student attendance data.

The District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2016, if applicable, cannot be determined at this time.

**Litigation**

The District is not currently a party to any significant legal proceedings.

**State Foundation Funding**

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school district, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the school district; therefore, the financial statement impact is not determinable at this time.

**Note 10 – Lake County School Financing District**

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The Board of Education of the Lake County Educational Service Center has, by a resolution adopted February 6, 1990, pursuant to Section 3311.50 of the Revised Code, created a county school financing district known as the Lake County School Financing District (the "Financing District") for the purpose of levying taxes for the provision of the following specified educational programs and services by the school districts that are part of the Financing District: the provision of necessary personnel, materials, supplies and transportation for instruction in language arts, social studies, mathematics, fine and practical arts, health and physical education, science and business education.

The Board of Education of the Lake County Educational Service Center acts as the taxing authority of the Financing District pursuant to Section 3311.50 of the Revised Code. The Financing District receives settlements of taxes levied and distributes within ten days to each of the Member Districts (including Painesville City Local School District) each such Member District's proportionate share of that tax settlement. Each Member District's proportionate share is a fraction, the numerator being Member District's total pupil population and the denominator being the aggregate pupil population of all Member Districts for that year.

**Painesville City Local School District**  
**Lake County, Ohio**  
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**For the Fiscal Year Ended June 30, 2016**

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**Note 11 – Jointly Governed Organizations**

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Auburn Career Center – The Auburn Career Center is a joint vocational school district, which is a jointly governed organization among eleven school districts. The students of each participating school district may attend classes offered at the vocational facility. Each participant's control over the operation of the Auburn Career Center is limited to representation on the board. Continued existence of the Auburn Career Center is not dependent on the District's continued participation. Financial information can be obtained by writing the Auburn Career Center, 8140 Auburn Road, Painesville, Ohio 44077.

Lake Geauga Computer Association - The Lake Geauga Computer Association (LGCA) is a jointly governed organization that was first formed for the purpose of providing computer services for accounting, grading, scheduling, EMIS and other applications to its eighteen (18) member school districts. Each of the districts supports LGCA based upon a per pupil charge. The executive committee (governing board) consists of the superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. LGCA's continued existence is not dependent on the District's continued participation. LGCA is not accumulating significant financial resources or experiencing financial distress, which would cause additional financial benefits or burden on the District. Financial information can be obtained from: Lake Geauga Computer Association, 8140 Auburn Road, Painesville, Ohio 44077.

Ohio Schools Council Association - The Ohio Schools Council Association (the Council) is a jointly governed organization among eighty-two school districts. The jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. Financial information can be obtained by contacting the Executive Secretary of the Ohio Schools Council at 6393 Oak Tree Blvd. #377, Independence, Ohio 44131.

The District also participates in the Council's prepaid natural gas program, which was implemented during fiscal year 1999. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve-year period. The participants make monthly payments based on estimated usage. Each month, these estimated payments are compared to their actual usage and any necessary adjustments are made.

**Note 12 – Claims Servicing Pool**

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The District participates in Lake County Council of Governments Health Care Benefits Program (HCBP) Self-Insurance Program, a shared risk pool, comprised of nine Lake County school districts plus Lakeland Community College and Lake County Educational Service Center. Each school district has a representative on the assembly (usually the superintendent or treasurer). Each member pays an administrative fee to the pool. The plan's business and affairs are conducted by a five member Board of Directors elected by the HCBP's assembly. The assembly elects officers for one or two year terms to serve on the Board of Directors.

**Painesville City Local School District  
Lake County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016**

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**Note 13 – Risk Management**

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The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2016, the District contracted with Schools of Ohio Risk Sharing Authority (SORSA) for property and general liability insurance. There is a \$1,000,000 limit of liability.

Commercial umbrella liability is protected by SORSA with a \$15,000,000 single and aggregate occurrence limit. Vehicles are covered by SORSA and have a \$1,000 deductible for comprehensive collision. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years.

The District has elected to provide medical coverage through the Lake County Council of Governments Health Care Benefits Program.

**Note 14 – OSBA Insurance Purchasing Pool**

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The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement & Co. provides administrative, cost control and actuarial services to the GRP.

**Note 15 – Fund Balance Reserves for Set-Asides**

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The District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the year-end set-aside amounts for capital acquisition. Disclosure of this information is required by State statute.

**Painesville City Local School District**  
**Lake County, Ohio**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2016**

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	<u>Capital Acquisition</u>
Set Aside Reserve Balance as of June 30, 2015	\$0
Current Year Set Aside Requirements	527,384
Current Year Offsets	<u>(18,541,889)</u>
Total	<u><u>(\$18,014,505)</u></u>
Set Aside Reserve Balance	
Carried Forward to Future Years	\$0
Set Aside Balance as of June 30, 2016	0
Committed Balance as of June 30, 2016	<u>0</u>
Restricted Cash as of June 30, 2016	<u><u>\$0</u></u>

**Note 16 – Interfund Transactions**

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Interfund transactions at June 30, 2016, consisted of the following transfers in and transfers out:

	Transfers	
	<u>In</u>	<u>Out</u>
General Fund	\$236,416	\$242,551
Other Governmental Funds	<u>18,042</u>	<u>11,907</u>
Total All Funds	<u><u>\$254,458</u></u>	<u><u>\$254,458</u></u>

Interfund balances/transfers are used to move receipts from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted receipts collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

**Note 17 – Fund Balances**

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Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:



**Painesville City Local School District**  
**Lake County, Ohio**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2016**

Fund Balances	General	Special Levy	Classroom Facilities Maintenance	Debt Service	Permanent Improvement	Other Governmental Funds	Total
<b>Restricted for:</b>							
Other Grants	\$0	\$0	\$0	\$0	\$0	\$62,712	\$62,712
Special Levy	0	2,826,350	0	0	0	0	2,826,350
District Managed Student Activity	0	0	0	0	0	96,467	96,467
Auxiliary Services	0	0	0	0	0	29,019	29,019
Miscellaneous State Grants	0	0	0	0	0	15,200	15,200
Classroom Facilities Maintenance	0	0	1,359,962	0	0	0	1,359,962
Debt Service Payments	0	0	0	1,336,546	0	0	1,336,546
Food Service	0	0	0	0	0	260,528	260,528
Capital Improvements	0	0	0	0	1,995,991	0	1,995,991
<b>Total Restricted</b>	<b>0</b>	<b>2,826,350</b>	<b>1,359,962</b>	<b>1,336,546</b>	<b>1,995,991</b>	<b>463,926</b>	<b>7,982,775</b>
<b>Committed to:</b>							
Fund Deficit/Emergency	433,222	0	0	0	0	0	433,222
<b>Total Committed</b>	<b>433,222</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>433,222</b>
<b>Assigned to:</b>							
Public School Support	23,311	0	0	0	0	0	23,311
Encumbrances	139,165	0	0	0	0	0	139,165
<b>Total Assigned</b>	<b>162,476</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>162,476</b>
<b>Unassigned (Deficit)</b>	<b>3,894,273</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,894,273</b>
<b>Total Fund Balance</b>	<b>\$4,489,971</b>	<b>\$2,826,350</b>	<b>\$1,359,962</b>	<b>\$1,336,546</b>	<b>\$1,995,991</b>	<b>\$463,926</b>	<b>\$12,472,746</b>

**Note 18 – Compliance**

Ohio Administrative Code, Section 117-2-03(B), requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, deferred inflows, deferred outflows, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

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**PAINESVILLE CITY LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2016**

<b>FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Total Federal Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>		
<i>Passed Through Ohio Department of Agriculture</i>		
<u>Child Nutrition Cluster:</u>		
School Breakfast Program	10.553	\$392,325
National School Lunch Program	10.555	1,086,979
National School Lunch Program - Non-Cash Assistance	10.555	137,667
Total - National School Lunch Program		<u>1,224,646</u>
Total Child Nutrition Cluster		1,616,971
Team Nutrition Grants	10.574	<u>20</u>
Total U.S. Department of Agriculture		1,616,991
<b>U.S. DEPARTMENT OF EDUCATION</b>		
<i>Passed Through Ohio Department of Education</i>		
<u>Special Education Cluster:</u>		
Special Education Grants to States	84.027	95,462
Total - Special Education Grants to States		<u>511,394</u>
Special Education - Preschool Grants	84.173	<u>17,041</u>
Total - Special Education Cluster		623,897
Title I Grants to Local Educational Agencies	84.010	69,950
		2,776
		422
		123,628
		61,447
		71,132
		15,644
Total - Title I Grants to Local Educational Agencies		<u>1,040,821</u>
English Language Acquisition State Grants	84.365	30,369
Total - English Language Acquisition State Grants		<u>123,520</u>
Improving Teacher Quality State Grants	84.367	16,548
Total - Improving Teacher Quality State Grants		<u>108,721</u>
		<u>125,269</u>
Total U.S. Department of Education		<u>2,288,875</u>
Total		<u><u>\$3,905,866</u></u>

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
2 CFR 200.510(b)(6)  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Federal Awards Expenditures Schedule (the Schedule) includes the federal award activity of the Painesville City Local School District, Lake County, Ohio, (the District's) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the cash financial position, changes in cash financial position of the District.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments* (codified in 2 CFR Part 225), or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE C - CHILD NUTRITION CLUSTER**

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

**NOTE D – FOOD DONATION PROGRAM**

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

**NOTE E - TRANSFERS BETWEEN PROGRAM YEARS**

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The District transferred the following amounts from 2015 to 2016 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amt. Transferred</u>
Special Education Grants to States	84.027	\$26
Title I Grants to Local Educational Agencies	84.010	1,441
Improving Teacher Quality State Grants	84.367	9,844



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Painesville City Local School District  
Lake County  
58 Jefferson Street  
Painesville, Ohio 44077

To the Board of Education:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Painesville City Local School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 30, 2016, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***Compliance and Other Matters***

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-001.

***District's Response to Finding***

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

November 30, 2016



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Painesville City Local School District  
Lake County  
58 Jefferson Street  
Painesville, Ohio 44077

To the Board of Education:

### ***Report on Compliance for Each Major Federal Program***

We have audited the Painesville City Local School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the Painesville City Local School District's major federal programs for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

### ***Management's Responsibility***

The District's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on each of the District's major programs. However, our audit does not provide a legal determination of the District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Painesville City Local School District, Lake County, Ohio, complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2016.

***Report on Internal Control Over Compliance***

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

November 30, 2016



**PAINESVILLE CITY LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2016**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unmodified
<b>(d)(1)(ii)</b>	<b>Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material weaknesses in internal control reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unmodified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under 2 CFR § 200.516(a)?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	<ul style="list-style-type: none"> <li>➤ Title I Grants to Local Educational Agencies, CFDA 84.010;</li> <li>➤ Improving Teacher Quality State Grants, CFDA 84.367;</li> <li>➤ Special Education Cluster, CFDA 84.027 and 84.173.</li> </ul>
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$750,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee under 2 CFR §200.520?</b>	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**FINDING NUMBER 2016-001**

**Noncompliance Finding:**

**Ohio Rev. Code § 117.38** provides that each public office shall file a financial report for each fiscal year, within one hundred and fifty days for entities reporting on a GAAP basis. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code § 117-2-03 further clarifies the requirements of Ohio Revised Code § 117.38.

**Ohio Admin. Code § 117-2-03(B)** requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the School District prepared its financial statements and notes following the cash basis of accounting. This is a comprehensive basis other than generally accepted accounting principles. The accompanying financial statements and footnotes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to **Ohio Rev. Code § 117.38**, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report within the required time limits.

We recommend the School District take the necessary steps to ensure the annual report is prepared in accordance with generally accepted accounting principles.

**Officials' Response:** At this time, Painesville City Local Schools no plan of action to file under GAAP. The Board believes in weighing out the cost and finds that the addition costs with filing under GAAP is not cost effective.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
2 CFR 200.511(b)  
JUNE 30, 2016**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2015-001	<b>Noncompliance Finding – Ohio Rev. Code § 117.38:</b> The District does not prepare GAAP basis financial statements.	Not Corrected	At this time, Painesville City Local Schools no plan of action to file under GAAP. The Board believes in weighing out the cost and finds that the addition costs with filing under GAAP is not cost effective.

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**PAINESVILLE CITY LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**CORRECTIVE ACTION PLAN  
2 CFR § 200.511(c)  
JUNE 30, 2016**

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2016-001	At this time, Painesville City Local Schools no plan of action to file under GAAP. The Board believes in weighing out the cost and finds that the addition costs with filing under GAAP is not cost effective.	N/A	Sherri Samac, Treasurer

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# Dave Yost • Auditor of State

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT**

**LAKE COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 20, 2016**